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Protecting yourself from securities fraud

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Jim Edgar
Secretary of State
Securities
Department



Securities and the law

A "security" is an intangible thing – an investment expected to generate profits from the efforts of someone else. Many types of investments are considered securities. Some of the most common securities are stocks, bonds, notes and limited partnership interests. Other forms include fractional undivided interests in oil or gas leases, rights or royalties, and so-called "investment contracts."

The Illinois Securities Law is designed to protect the investor. It provides the Securities Department with the power to seek administrative and criminal sanctions against those who violate the Securities Law. Defrauded investors may also pursue civil remedies to recover their investment. Unfortunately, in many cases of fraud, there are no funds left to recover.

Securities professionals must be registered with the Securities Department of the Secretary of State's office. Records of registered securities and registered dealers, salespersons and investment advisers are available in the department's Springfield office. Although the Securities Department cannot give you legal or investment advice, the department can handle your complaints about securities fraud or improper practices by securities professionals. If your particular investment turns out not to be a security, we will refer your inquiry or complaint to the appropriate regulatory agency.

Understanding risk

All investments contain elements of **risk**. Three risks should be of most significant concern to the average investor:

- The risk that the venture might not be as successful as hoped and therefore not generate the expected profit, or any profit for that matter (an investment risk).
- The risk that the venture might not succeed at all, so that part or all of the investor's initial investment would be lost (also an investment risk).
- The risk that the investor might be defrauded (the risk of fraud).

As an investor, you must recognize the extent of your own ability to afford investment risk. A retired person living on a fixed or limited income may not be able to afford losing even a small portion of his or her savings, while a young, single professional may be able to speculate to some extent.

It is important to understand that the higher the rate of return, the greater the risk. That higher return is the investor's compensation for bearing the greater risk. No matter what, unless you are investing in notes or bonds issued by the United States Treasury, you always should be able to afford losing the whole sum invested.

Investors can help guard against the third risk, risk of fraud, by exercising caution and educating themselves about the venture and its promoters before turning over their money. The "Investor Tips" on the next page are a start in the right direction.

Investor tips

Keep the following points in mind before you invest:

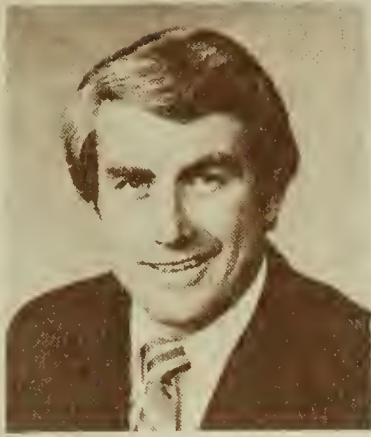
- Obtain and review a written proposal or prospectus on the venture and the company, including financial statements, if available.
- Consult an accountant, attorney or other knowledgeable person whom you trust if you have questions or do not understand the deal.
- For tax shelter deals, ask the promotor for a written legal opinion as to the tax consequences of the venture.
- Contact the Illinois Securities Department to find out whether the company and the promoter have obtained all proper licenses or have any history of problems with authorities. If you can, check out the promoter, dealer or salesperson with friends who invest.
- Find out how long a company has been in business and check on the principals, officers and directors. Call your local Better Business Bureau for a reliability report on the company.
- Avoid promoters using random telephone calls, high pressure tactics or messenger services which pick up money from investors. Be wary of salespeople who urge "immediate action."
- Never mail payment by certified check, give credit card numbers over the phone, or send payment via a messenger service arranged by the promoter.
- Beware of "pyramid schemes," in which recruitment of new members is more important than the product being distributed. Those in the scheme early may profit; those in late always lose.

Whenever in doubt, wait until you can consult all available resources. Make sure **you** are comfortable with the investment before you commit yourself to it.

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**Protect
Yourself
From
Fraud**

One of my most important job responsibilities is helping Illinois citizens who have become victims of securities fraud. The Securities Department of the Office of the Secretary of State is your watchdog for fraudulent securities schemes and unscrupulous promoters. Through comprehensive registration and reporting programs, investigation and prosecution, we have been able to put persons who prey upon Illinois investors out of business and, sometimes, in jail.

Please take a few minutes to review this brochure to aid you in investment decisions and to learn about the Securities Department as a resource for investors. Some well-placed questions, a basic knowledge of your rights, and a dose of common sense may save you time, frustration and, most importantly, your hard-earned dollars.

Please contact my office if you have any concerns about an investment opportunity – particularly one that seems “too good to be true.”

Jim Edgar

Jim Edgar
Secretary of State



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